

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LYON COUNTY
MARSHALL, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2012

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**LYON COUNTY
MARSHALL, MINNESOTA**

For the Year Ended December 31, 2012



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**LYON COUNTY
MARSHALL, MINNESOTA**

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MARSHALL, MINNESOTA**

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**LYON COUNTY
MARSHALL, MINNESOTA**

ORGANIZATION
2012

Office	Name	Term Expires
Commissioners		
1st District	Rodney Stensrud	January 2013
2nd District	Robert Fenske ¹	January 2013
3rd District	Rick Anderson ²	January 2013
4th District	Steve Ritter	January 2013
5th District	Mark Goodenow	January 2013
Officers		
Elected		
Attorney	Rick Maes	January 2015
Auditor/Treasurer	E.J. Moberg*	January 2015
Recorder	Mona Hammer	January 2015
Sheriff	Mark Mather	January 2015
Appointed		
Administrator	Loren Stomberg	Indefinite
Assessor	Dean Champine	December 2016
Public Works Director/Highway Engineer	Suhail Kanwar	May 2013
Environmental Administrator	Paul Henriksen	Indefinite
Veterans Service Officer	Terry Wing	September 2014

¹Chair 2012

²Chair 2013

*E.J. Moberg was appointed as Auditor/Treasurer effective October 29, 2012, to fill the remaining term of Paula VanOverbeke, who resigned effective September 4, 2012.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lyon County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County as of December 31, 2012, and the respective changes in financial position and, where applicable, cashflows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lyon County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial

statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2013, on our consideration of Lyon County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lyon County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 13, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**LYON COUNTY
MARSHALL, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(Unaudited)**

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the County's financial activities for the fiscal year ended December 31, 2012. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of Lyon County exceeded its liabilities on December 31, 2012, by \$103,964,671 (net position). Of this amount, \$16,377,687 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's total net position increased by \$4,279,667 in 2012. This is attributable primarily to an increase in capital assets of \$1,999,632 and the effect of the decrease in long-term liabilities of \$3,000,659.
- The net cost of governmental activities for the current fiscal year was \$10,832,626. The net cost was funded by general revenues and other items totaling \$14,566,518.
- As of the close of 2012, the County's governmental funds reported combined ending fund balances of \$16,826,550, a decrease of \$1,833,963 in comparison with 2011 combined ending fund balances. Of the 2012 balance, \$12,836,173 was unrestricted and, thus, available for spending at the government's discretion.
- At the end of 2012, the unrestricted fund balance for the General Fund was \$8,741,503, or 66.2 percent, of the total General Fund expenditures for the year. This represents an increase from 2011, in which the unrestricted fund balance for the General Fund represented 61.2 percent of the total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other required supplementary information.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances in a manner similar to a private-sector business.

The statement of net position presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. You will also need to consider other nonfinancial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from those that are intended to recover all or a significant portion of their costs through fees and charges (business-type activities). The governmental activities of the County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, economic development, and interest. Lyon County has only the landfill reported as a business-type activity.

The government-wide statements can be found on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law or by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Ditch Special Revenue Fund, and Debt Service Fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on Exhibits 3 through 6 of this report.

The business-type fund accounts for the Landfill Enterprise Fund. The financial statements for this fund provide the same type of information as the government-wide financial statements--only in more detail.

The basic business-type fund financial statements can be found on Exhibits 7 through 9 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the County. Fiduciary funds are not included in the government-wide statements because the resources of those funds are not available to support the County's own programs or activities. The accounting for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on Exhibits 10 through 11 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$103,964,671 at the close of 2012. The largest portion of the County's net position (76.0 percent) reflects the County's net investment in capital assets (for example, land, buildings, equipment, and infrastructure such as roads and bridges), less any related debt used to acquire those assets (that is still outstanding). However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Net Position

	2012			2011
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current and other assets	\$ 22,842,907	\$ 7,875,297	\$ 30,718,204	\$ 32,218,405
Capital assets	80,530,940	5,099,793	85,630,733	83,631,101
Total Assets	\$ 103,373,847	\$ 12,975,090	\$ 116,348,937	\$ 115,849,506
Liabilities				
Long-term liabilities	\$ 9,652,220	\$ 1,340,890	\$ 10,993,110	\$ 13,993,769
Other liabilities	1,349,042	42,114	1,391,156	2,170,733
Total Liabilities	\$ 11,001,262	\$ 1,383,004	\$ 12,384,266	\$ 16,164,502
Net Position				
Net investment in capital assets	\$ 73,855,805	\$ 5,099,793	\$ 78,955,598	\$ 74,005,101
Restricted	5,091,601	3,539,785	8,631,386	9,540,455
Unrestricted	13,425,179	2,952,508	16,377,687	16,139,448
Total Net Position	\$ 92,372,585	\$ 11,592,086	\$ 103,964,671	\$ 99,685,004

Unrestricted net position--the part of net position that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--are 15.8 percent of the net position.

Governmental Activities

Lyon County's activities increased net position during 2012 by \$4,279,667, representing a 4.3 percent increase. Key elements in this increase in net position are as follows:

Changes in Net Position

	2012			2011
	Governmental Activities	Business-Type Activities	Total	
Revenues				
Program revenues				
Charges for services	\$ 2,934,936	\$ 2,102,657	\$ 5,037,593	\$ 5,056,802
Operating grants and contributions	4,680,800	-	4,680,800	4,407,088
Capital grants and contributions	4,340,099	-	4,340,099	1,367,451
General revenues				
Property taxes	12,068,299	-	12,068,299	11,448,404
Other	2,498,219	10,293	2,508,512	2,704,798
Total Revenues	\$ 26,522,353	\$ 2,112,950	\$ 28,635,303	\$ 24,984,543

	2012			2011
	Governmental Activities	Business-Type Activities	Total	
Expenses				
General government	\$ 3,880,959	\$ -	\$ 3,880,959	\$ 3,994,609
Public safety	7,490,258	-	7,490,258	5,309,843
Highways and streets	6,223,405	-	6,223,405	5,321,242
Sanitation	585,385	1,567,175	2,152,560	2,331,021
Human services	2,587,848	-	2,587,848	2,522,884
Health	224,454	-	224,454	223,258
Culture and recreation	516,815	-	516,815	458,000
Conservation of natural resources	899,533	-	899,533	537,084
Economic development	57,668	-	57,668	45,518
Interest	322,136	-	322,136	435,770
Total Expenses	<u>\$ 22,788,461</u>	<u>\$ 1,567,175</u>	<u>\$ 24,355,636</u>	<u>\$ 21,179,229</u>
Increase in Net Position	\$ 3,733,892	\$ 545,775	\$ 4,279,667	\$ 3,805,314
Net Position - January 1	<u>88,638,693</u>	<u>11,046,311</u>	<u>99,685,004</u>	<u>95,879,690</u>
Net Position - December 31	<u>\$ 92,372,585</u>	<u>\$ 11,592,086</u>	<u>\$ 103,964,671</u>	<u>\$ 99,685,004</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances left at year-end that are available for spending. Such information is useful in assessing the County's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$16,826,550, a decrease of \$1,833,963 in comparison with the prior year. Of the ending fund balance, \$6,227,133 represents unassigned fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed, restricted, assigned, or is in nonspendable form.

The General Fund is the chief operating fund for the County. At the end of the current fiscal year, it had an unrestricted fund balance of \$8,741,503. Fund balance in the General Fund increased \$1,165,850 from the prior year. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund's unrestricted fund balance represents 66.2 percent of total General Fund expenditures.

The Road and Bridge Special Revenue Fund had an unrestricted fund balance of \$4,094,670 at year-end. In total, fund balance for the Road and Bridge Special Revenue Fund decreased \$1,997,626 over the previous year.

The human services function for Lyon County is performed through a joint powers agreement between multiple counties and is known as Southwest Health and Human Services. Lyon County participates in this joint powers authority and annually levies a human service levy on Lyon County property as required by the Joint Health and Human Services Board. Detailed financial information of the activities of Southwest Health and Human Services can be addressed to Southwest Health and Human Services, 607 West Main Street, Marshall, Minnesota 56258.

The Ditch Special Revenue Fund had a restricted ending balance of \$1,203,881. This ending balance represents an \$85,158 increase in fund balance from the prior year. The increase is attributed to an increase in special assessment collections held for future repairs to the various County ditches.

Governmental Activities

The County’s total revenues for 2012 were \$28,635,303. Table 1 (below) provides a breakdown of the source of revenues for governmental activities for the year ended December 31, 2012.

**Table 1
Revenues - Governmental Activities**

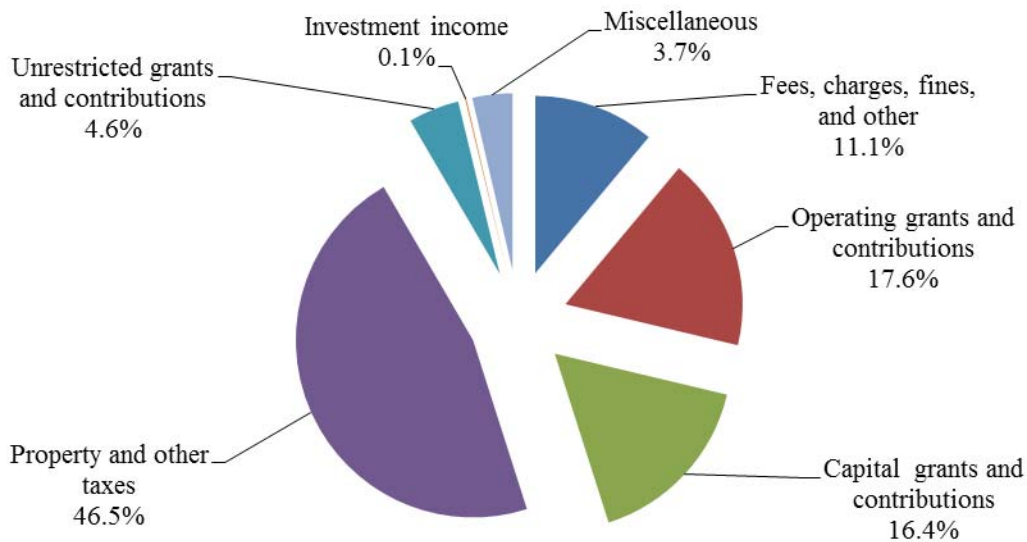


Table 2 (below) presents the revenues and expenses of each of the County’s governmental activities, as well as the County’s revenues from other sources such as property taxes, interest, and unrestricted grants.

Total revenues for the County’s governmental activities were \$26,522,353, while total expenses were \$22,788,461. This corresponds to a \$3,733,892 increase in net position for the year ended December 31, 2012.

Table 2

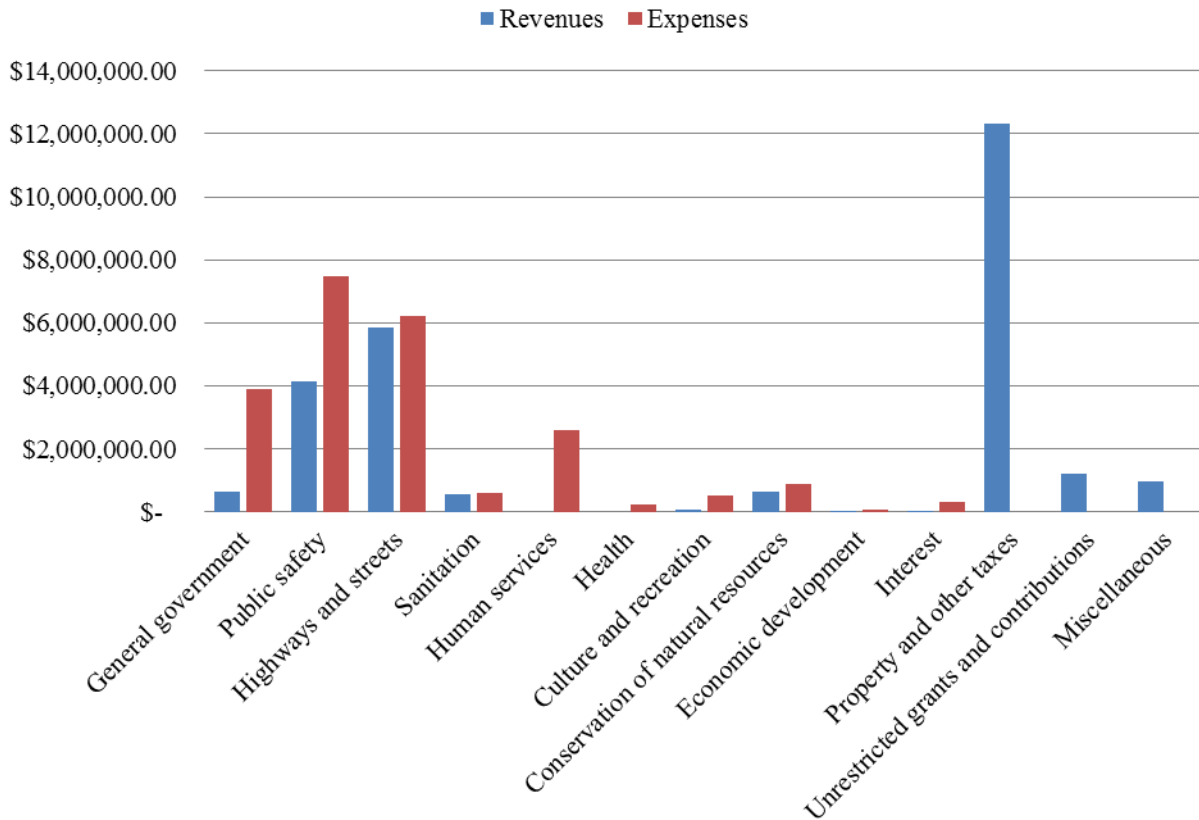


Table 3 (below) displays the cost of each of the County’s four largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activity). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

**Table 3
Governmental Activities**

	Total Cost of Services 2012	Net Cost of Services 2012
	<u>2012</u>	<u>2012</u>
Public safety	\$ 7,490,258	\$ 3,330,762
Highways and streets	6,223,405	368,564
General government	3,880,959	3,239,389
Human services	2,587,848	2,587,848
All others	<u>2,605,991</u>	<u>1,306,063</u>
Totals	<u>\$ 22,788,461</u>	<u>\$ 10,832,626</u>

General Fund Budgetary Highlights

General Fund revenues exceeded budgeted revenues by \$4,086,394, primarily due to more intergovernmental revenue received than budgeted for.

General Fund expenditures were more than budgeted expenditures by \$2,920,544, primarily due to not budgeting amounts for Regional Radio Board transactions or for ARMER Radio project expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Lyon County’s depreciable capital assets for its governmental activities at December 31, 2012, totaled \$78,782,044 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings, equipment, and infrastructure. The County’s investment in depreciable capital assets increased \$4,568,826, or 6.2 percent, from the previous year.

Depreciable Governmental Capital Assets

	<u>2012</u>	<u>2011</u>
Capital assets depreciated		
Land improvements	\$ 504,797	\$ 504,797
Buildings	22,327,642	22,065,642
Machinery and equipment	6,441,675	6,230,593
Infrastructure	<u>82,718,702</u>	<u>76,629,244</u>
Total capital assets depreciated	<u>\$ 111,992,816</u>	<u>\$ 105,430,276</u>

	<u>2012</u>	<u>2011</u>
Less: accumulated depreciation for		
Land improvements	\$ 362,296	\$ 342,505
Buildings	4,676,975	4,270,809
Machinery and equipment	4,174,274	4,236,161
Infrastructure	<u>23,997,227</u>	<u>22,367,583</u>
Total accumulated depreciation	<u>\$ 33,210,772</u>	<u>\$ 31,217,058</u>
Total Capital Assets Depreciated, Net	<u>\$ 78,782,044</u>	<u>\$ 74,213,218</u>

Additional information on the County's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of \$9,652,220 for governmental activities, which was backed by the full faith and credit of the government. Other liabilities and contingencies are described in the notes to the financial statements.

Outstanding Debt

	<u>2012</u>	<u>2011</u>
Special assessment debt	\$ 376,577	\$ 461,057
General obligation debt	6,703,576	9,669,941
Loans payable	674,841	751,763
Compensated absences	553,808	575,112
Net OPEB liability	<u>1,343,418</u>	<u>1,288,113</u>
Total	<u>\$ 9,652,220</u>	<u>\$ 12,745,986</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City of Marshall is the county seat for Lyon County. According to the 2010 census, Marshall has a population of 13,680 compared to the total County population of 25,857.

The County's elected and appointed officials considered many factors when setting the 2013 budget, tax rates, and fees that will be charged for the year.

The average unemployment rate for Lyon County for 2012 was 4.55 percent. This compares favorably with the state unemployment rate of 5.64 percent and shows a decrease from the County's 5.29 percent rate of one year ago. This could impact the level of services requested by County residents.

County Tax Rate and Levy History

2013	37.711%	\$ 12,164,341
2012	42.396	12,164,341
2011	42.819	12,164,341
2010	45.449	12,164,341
2009	52.142	12,164,341

On December 18, 2012, the Lyon County Board of Commissioners approved the 2013 budget and adopted a property tax levy of \$12,164,341, which represents a zero increase over the 2012 property tax levy of \$12,164,341.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Lyon County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the County Auditor/Treasurer, E.J. Moberg, 607 West Main Street, Marshall, Minnesota 56258.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 16,980,533	\$ 3,365,177	\$ 20,345,710
Investments	520,484	708,000	1,228,484
Receivables - net	5,037,885	262,169	5,300,054
Internal balances	54	(54)	-
Inventories	229,098	-	229,098
Prepaid items	40,460	-	40,460
Restricted assets			
Cash and pooled investments	-	701,730	701,730
Investments	-	2,838,055	2,838,055
Accrued interest receivable	-	220	220
Deferred debt issuance costs	34,393	-	34,393
Capital assets			
Non-depreciable capital assets	1,748,896	390,433	2,139,329
Depreciable capital assets - net of accumulated depreciation	78,782,044	4,709,360	83,491,404
Total Assets	\$ 103,373,847	\$ 12,975,090	\$ 116,348,937
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 1,138,717	\$ 42,114	\$ 1,180,831
Accrued interest payable	126,080	-	126,080
Unearned revenue	74,245	-	74,245
Customer deposits - current	10,000	-	10,000
Long-term liabilities			
Due within one year	868,911	-	868,911
Due in more than one year	8,783,309	1,340,890	10,124,199
Total Liabilities	\$ 11,001,262	\$ 1,383,004	\$ 12,384,266
<u>Net Position</u>			
Net investment in capital assets	\$ 73,855,805	\$ 5,099,793	\$ 78,955,598
Restricted for			
Public safety	229,236	-	229,236
Highways and streets	3,409,374	-	3,409,374
Landfill closure/postclosure	-	3,539,785	3,539,785
Debt service	881,722	-	881,722
Other purposes	571,269	-	571,269
Unrestricted	13,425,179	2,952,508	16,377,687
Total Net Position	\$ 92,372,585	\$ 11,592,086	\$ 103,964,671

The notes to the financial statements are an integral part of this statement.

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**LYON COUNTY
MARSHALL, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 3,880,959	\$ 586,695
Public safety	7,490,258	612,965
Highways and streets	6,223,405	683,757
Sanitation	585,385	447,584
Human services	2,587,848	-
Health	224,454	-
Culture and recreation	516,815	81,535
Conservation of natural resources	899,533	522,400
Economic development	57,668	-
Interest	322,136	-
	\$ 22,788,461	\$ 2,934,936
Total governmental activities		
Business-type activities		
Landfill	1,567,175	2,102,657
	\$ 24,355,636	\$ 5,037,593
Total		

General Revenues

Property taxes
Mortgage registry and deed tax
Payments in lieu of tax
Grants and contributions not restricted to
specific programs
Interest income
Miscellaneous

Total general revenues

Change in net position

Net Position - January 1, as restated (Note 2.A.)

Net Position - December 31

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 54,875	\$ -	\$ (3,239,389)	\$ -	\$ (3,239,389)
296,234	3,250,297	(3,330,762)	-	(3,330,762)
4,081,282	1,089,802	(368,564)	-	(368,564)
114,592	-	(23,209)	-	(23,209)
-	-	(2,587,848)	-	(2,587,848)
-	-	(224,454)	-	(224,454)
9,173	-	(426,107)	-	(426,107)
109,569	-	(267,564)	-	(267,564)
15,075	-	(42,593)	-	(42,593)
-	-	(322,136)	-	(322,136)
\$ 4,680,800	\$ 4,340,099	\$ (10,832,626)	\$ -	\$ (10,832,626)
-	-	-	535,482	535,482
\$ 4,680,800	\$ 4,340,099	\$ (10,832,626)	\$ 535,482	\$ (10,297,144)
		\$ 12,068,299	\$ -	\$ 12,068,299
		20,396	-	20,396
		244,968	-	244,968
		1,230,319	-	1,230,319
		29,938	6,723	36,661
		972,598	3,570	976,168
		\$ 14,566,518	\$ 10,293	\$ 14,576,811
		\$ 3,733,892	\$ 545,775	\$ 4,279,667
		88,638,693	11,046,311	99,685,004
		\$ 92,372,585	\$ 11,592,086	\$ 103,964,671

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General	Special Revenue Funds			Debt Service	Total
		Road and Bridge	Human Services	Ditch		
<u>Assets</u>						
Cash and pooled investments	\$ 10,398,947	\$ 4,346,030	\$ 162,603	\$ 1,084,303	\$ 988,650	\$ 16,980,533
Investments	351,175	-	-	169,309	-	520,484
Taxes receivable						
Prior	87,187	22,487	26,859	-	12,843	149,376
Special assessments receivable						
Prior	2,600	-	-	2,969	-	5,569
Noncurrent	494,956	-	-	486,194	-	981,150
Accounts receivable	18,004	3,847	-	5,238	-	27,089
Accrued interest receivable	2,981	-	-	110	-	3,091
Due from other funds	8,657	5,018	-	-	-	13,675
Due from other governments	170,352	3,664,598	-	36,660	-	3,871,610
Advance to other funds	8,862	-	-	-	-	8,862
Inventories	-	229,098	-	-	-	229,098
Prepaid items	34,582	5,878	-	-	-	40,460
Total Assets	\$ 11,578,303	\$ 8,276,956	\$ 189,462	\$ 1,784,783	\$ 1,001,493	\$ 22,830,997
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 107,865	\$ 76,778	\$ -	\$ 14,722	\$ -	\$ 199,365
Salaries payable	340,981	77,088	-	-	-	418,069
Contracts payable	52,405	145,228	-	-	-	197,633
Due to other funds	4,964	139	-	8,518	-	13,621
Due to other governments	103,811	7,599	162,603	49,637	-	323,650
Deferred revenue - unavailable	594,325	3,635,812	26,859	489,163	12,843	4,759,002
Deferred revenue - unearned	74,245	-	-	-	-	74,245
Customer deposits	-	-	-	10,000	-	10,000
Advance from other funds	-	-	-	8,862	-	8,862
Total Liabilities	\$ 1,278,596	\$ 3,942,644	\$ 189,462	\$ 580,902	\$ 12,843	\$ 6,004,447
Fund Balances						
Nonspendable	\$ 34,582	\$ 234,976	\$ -	\$ -	\$ -	\$ 269,558
Restricted	1,523,622	4,666	-	1,203,881	988,650	3,720,819
Committed	977,381	104,546	-	-	-	1,081,927
Assigned	1,536,989	3,990,124	-	-	-	5,527,113
Unassigned	6,227,133	-	-	-	-	6,227,133
Total Fund Balances	\$ 10,299,707	\$ 4,334,312	\$ -	\$ 1,203,881	\$ 988,650	\$ 16,826,550
Total Liabilities and Fund Balances	\$ 11,578,303	\$ 8,276,956	\$ 189,462	\$ 1,784,783	\$ 1,001,493	\$ 22,830,997

The notes to the financial statements are an integral part of this statement.

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Fund balance - total governmental funds (Exhibit 3)		\$	16,826,550
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			80,530,940
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			4,759,002
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
General obligation bonds	\$	(6,580,000)	
Special assessment bonds		(380,000)	
Compensated absences		(553,808)	
Net OPEB liability		(1,343,418)	
Loans payable		(674,841)	
Accrued interest payable		(126,080)	
Unamortized premium on general obligation bonds		(180,337)	
Unamortized discount on general obligation bonds		56,761	
Unamortized discount on special assessment bonds		3,423	
Deferred debt issuance costs		34,393	
		<u>34,393</u>	<u>(9,743,907)</u>
Net Position of Governmental Activities (Exhibit 1)			<u>\$ 92,372,585</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Special Revenue Funds</u>					<u>Total</u>
	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	
Revenues						
Taxes	\$ 6,964,150	\$ 1,885,286	\$ 2,328,449	\$ -	\$ 927,328	\$ 12,105,213
Special assessments	402,652	-	-	593,626	-	996,278
Licenses and permits	35,743	-	-	-	-	35,743
Intergovernmental	4,803,166	4,729,088	259,399	36,660	16,450	9,844,763
Charges for services	1,024,704	12,839	-	-	-	1,037,543
Fines and forfeits	75	-	-	-	-	75
Gifts and contributions	2,225	-	-	-	-	2,225
Investment earnings	28,921	-	-	1,017	-	29,938
Miscellaneous	1,112,270	721,163	-	12,870	-	1,846,303
Total Revenues	\$ 14,373,906	\$ 7,348,376	\$ 2,587,848	\$ 644,173	\$ 943,778	\$ 25,898,081
Expenditures						
Current						
General government	\$ 3,506,078	\$ -	\$ -	\$ -	\$ -	\$ 3,506,078
Public safety	7,786,883	-	-	-	-	7,786,883
Highways and streets	-	7,985,932	-	-	-	7,985,932
Sanitation	581,737	-	-	-	-	581,737
Culture and recreation	247,509	-	-	-	-	247,509
Conservation of natural resources	442,275	-	-	455,220	-	897,495
Economic development	57,668	-	-	-	-	57,668
Intergovernmental	474,454	345,088	2,587,848	-	-	3,407,390
Debt service						
Principal	97,753	-	-	85,000	2,945,000	3,127,753
Interest	13,699	-	-	17,572	340,180	371,451
Administrative (fiscal) fees	-	-	-	1,223	3,227	4,450
Total Expenditures	\$ 13,208,056	\$ 8,331,020	\$ 2,587,848	\$ 559,015	\$ 3,288,407	\$ 27,974,346
Excess of Revenues Over (Under) Expenditures	\$ 1,165,850	\$ (982,644)	\$ -	\$ 85,158	\$ (2,344,629)	\$ (2,076,265)
Other Financing Sources (Uses)						
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ 1,257,284	\$ 1,257,284
Transfers out	-	(1,257,284)	-	-	-	(1,257,284)
Compensation for loss of capital assets	-	358,487	-	-	-	358,487
Total Other Financing Sources (Uses)	\$ -	\$ (898,797)	\$ -	\$ -	\$ 1,257,284	\$ 358,487

**LYON COUNTY
MARSHALL, MINNESOTA**

*EXHIBIT 5
(Continued)*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Special Revenue Funds					Total
	General	Road and Bridge	Human Services	Ditch	Debt Service	
Net Change in Fund Balance	\$ 1,165,850	\$ (1,881,441)	\$ -	\$ 85,158	\$ (1,087,345)	\$ (1,717,778)
Fund Balance - January 1	9,133,857	6,331,938	-	1,118,723	2,075,995	18,660,513
Increase (decrease) in inventories	-	(116,185)	-	-	-	(116,185)
Fund Balance - December 31	\$ 10,299,707	\$ 4,334,312	\$ -	\$ 1,203,881	\$ 988,650	\$ 16,826,550

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (1,717,778)

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred revenue - December 31	\$ 4,759,002	
Deferred revenue - January 1	<u>(4,359,364)</u>	399,638

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 4,786,744	
Net book value of assets disposed of	(160,280)	
Current year depreciation	<u>(2,533,589)</u>	2,092,875

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net position.

Debt issued		
Loans		(20,831)

Debt principal repayments		
General obligation bonds	\$ 2,945,000	
Special assessment bonds	85,000	
Loans payable	<u>97,753</u>	3,127,753

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable	\$ 45,181	
Change in compensated absences	21,304	
Change in net OPEB liability	(106,649)	
Change in inventories	(116,185)	
Current year amortization of premiums, discounts, and deferred issuance costs	<u>8,584</u>	<u>(147,765)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 3,733,892

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PROPRIETARY FUND

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
DECEMBER 31, 2012**

Assets

Current assets	
Cash and pooled investments	\$ 3,365,177
Investments	708,000
Accounts receivable - net	245,282
Accrued interest receivable	25
Due from other governments	16,862
Internal balances	(54)
Restricted assets	
Cash and pooled investments	701,730
Investments	2,838,055
Accrued interest receivable	220
Total current assets	\$ 7,875,297
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 390,433
Depreciable - net	4,709,360
Total noncurrent assets	\$ 5,099,793
Total Assets	\$ 12,975,090

Liabilities

Current liabilities	
Accounts payable	\$ 12,430
Salaries payable	19,764
Due to other governments	9,920
Total current liabilities	\$ 42,114
Noncurrent liabilities	
Compensated absences payable - long-term	\$ 38,978
Net OPEB obligation	56,173
Estimated liability for landfill closure/postclosure care	1,245,739
Total noncurrent liabilities	\$ 1,340,890
Total Liabilities	\$ 1,383,004

Net Position

Net investment in capital assets	\$ 5,099,793
Restricted for postclosure care	3,539,785
Unrestricted	2,952,508
Total Net Position	\$ 11,592,086

The notes to the financial statements are an integral part of this statement.

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

Operating Revenues	
Charges for services	\$ 2,089,541
Miscellaneous	13,116
Dividends	3,570
	<hr/>
Total Operating Revenues	\$ 2,106,227
Operating Expenses	
Personal services	\$ 353,748
Professional services	249,372
Administration and fiscal services	10,112
Other services and charges	731,897
Utilities	52,274
Depreciation	133,640
Landfill closure and postclosure care costs	36,132
	<hr/>
Total Operating Expenses	\$ 1,567,175
Operating Income (Loss)	\$ 539,052
Nonoperating Revenues (Expenses)	
Investment earnings	6,723
	<hr/>
Change in Net Position	\$ 545,775
Net Position - January 1, as restated (Note 2.A.)	11,046,311
	<hr/>
Net Position - December 31	\$ 11,592,086
	<hr/> <hr/>

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 2,369,340
Payments to suppliers	(1,384,329)
Payments to employees	(345,054)
	<hr/>
Net cash provided by (used in) operating activities	\$ 639,957
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(40,397)
Cash Flows from Investing Activities	
Investment earnings	9,911
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 609,471
Cash and Cash Equivalents - January 1	<hr/> 3,457,436
Cash and Cash Equivalents - December 31	<hr/> \$ 4,066,907
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position - Exhibit 7	
Cash and pooled investments	\$ 3,365,177
Restricted cash and pooled investments	701,730
	<hr/>
Total Cash and Cash Equivalents - December 31	<hr/> \$ 4,066,907

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>\$ 539,052</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 133,640
(Increase) decrease in accounts receivable	21,160
(Increase) decrease in due from other funds	6
(Increase) decrease in due from other governments	(2,019)
Increase (decrease) in accounts payable	(92,422)
Increase (decrease) in salaries payable	3,059
Increase (decrease) in due to other governments	(443)
Increase (decrease) in due to other funds	(3,839)
Increase (decrease) in landfill closure/postclosure care costs	36,132
Increase (decrease) in net OPEB liability, as restated	4,829
Increase (decrease) in compensated absences payable	<u>802</u>
Total adjustments	<u>\$ 100,905</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 639,957</u>
Noncash investing, capital, and financing activities	
Transfer of vehicle from governmental activities	
Capital assets amount	\$ 15,578
Accumulated depreciation amount	(15,578)

FIDUCIARY FUNDS

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012**

	<u>Investment Trust Fund</u>	<u>Agency</u>
<u>Assets</u>		
Cash and pooled investments	\$ 6,035,430	\$ 656,346
Accrued interest receivable	851	-
Total Assets	\$ 6,036,281	\$ 656,346
<u>Liabilities</u>		
Due to other governments	-	\$ 656,346
<u>Net Position</u>		
Net position, held in trust for pool participants	\$ 6,036,281	

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Investment Trust Fund</u>
<u>Additions</u>	
Contributions from participants	\$ 20,098,520
Investment earnings	<u>6,498</u>
Total Additions	\$ 20,105,018
<u>Deductions</u>	
Distributions to participants	<u>18,524,751</u>
Change in Net Position	\$ 1,580,267
Net Position - January 1	<u>4,456,014</u>
Net Position - December 31	<u><u>\$ 6,036,281</u></u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Lyon County was established March 6, 1868, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. § 373.01. As required by accounting principles generally accepted in the United States of America, these financial statements present Lyon County. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

The County participates in several joint ventures described in Note 5.C. The County also participates in jointly-governed organizations described in Note 5.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the primary government. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis that recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and the business-type activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenue, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. The County reports all of its governmental and proprietary funds as major funds.

The County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

- The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Human Services Special Revenue Fund accounts for committed property tax revenues used for economic assistance and community social services programs.
- The Ditch Special Revenue Fund accounts for special assessment levies against benefitted property restricted for construction and maintenance of an agricultural drainage ditch system.
- The Debt Service Fund is used to account for the accumulation of restricted resources used for, and the payment of principal, interest, and related costs.

The County reports the following major enterprise fund:

- The Landfill Fund is used to account for the operation, maintenance, and development of the County solid waste landfill.

Additionally, the County reports the following fund types:

- The Investment Trust Fund is used to account for the external pooled investments held for Southwest Health and Human Services.
- Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets the County holds for others in an agent capacity.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Lyon County considers all revenue as available if collected within 60 days after the end of the current period. Property taxes are recognized as revenue in the year for which they are levied provided they are also available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, and Net Position or Equity

1. Cash and Cash Equivalents

Lyon County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Investment earnings on business-type activities are credited to the Lyon County Landfill Enterprise Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2012 were \$20,342.

Lyon County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7), as amended. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

3. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a non-spendable fund balance account in applicable governmental funds to indicate that they are not in spendable form.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

3. Receivables and Payables (Continued)

All receivables are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15 or November 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

4. Special Assessments Receivable

Special assessments receivable consist of delinquent special assessments and deferred special assessments. All special assessments receivable are shown net of an allowance for uncollectibles.

5. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

6. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25 - 100
Improvements to land	20 - 35
Public domain infrastructure	15 - 75
Machinery and equipment	3 - 20

Landfill cells are depreciated from 20 - 30 years based on use, which is calculated by dividing total capacity used by total available cell capacity.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

8. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

9. Deferred Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

10. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

11. Classification of Net Position

Net position in the government-wide and proprietary fund financial statements are classified in the following categories:

Net investment in capital assets - the amount of net position representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

12. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - amounts in which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or by law through constitutional provisions or enabling legislation.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

12. Classification of Fund Balances (Continued)

Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned - amounts the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Administrator who has been delegated that authority by Board resolution.

Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classification. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

13. Minimum Fund Balance

Lyon County has adopted a minimum fund balance policy for the General Fund. The General Fund is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined they need to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of no less than five months of operating expenditures. The fund

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

13. Minimum Fund Balance (Continued)

balance policy was adopted by the County Board on December 20, 2011. At December 31, 2012, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

14. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Stewardship, Compliance, and Accountability

Prior Period Adjustment of Long-Term Debt and Net Position

The January 1, 2012, net OPEB liability and corresponding net position balances were restated for governmental activities and business-type activities due to an allocation of a portion of the long-term debt for net OPEB obligation to the Landfill Enterprise Fund.

Net OPEB liability:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Balance, January 1, 2012, as previously reported	\$ 1,288,113	\$ -
Prior period adjustment for correction to net OPEB obligation	(51,344)	51,344
Balance, January 1, 2012, as restated	<u>\$ 1,236,769</u>	<u>\$ 51,344</u>

Net position:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Balance, January 1, 2012, as previously reported	\$ 88,587,349	\$ 11,097,655
Prior period adjustment for correction to net OPEB obligation	51,344	(51,344)
Balance, January 1, 2012, as restated	<u>\$ 88,638,693</u>	<u>\$ 11,046,311</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the County’s total cash and investments to the basic financial statements follows:

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 16,980,533
Investments	520,484
Business-type activities	
Cash and pooled investments	3,365,177
Investments	708,000
Cash and pooled investments - restricted assets	701,730
Investments - restricted assets	2,838,055
Statement of fiduciary net position	
Cash and pooled investments	
Investment trust fund	6,035,430
Agency funds	656,346
Total Cash and Investments	\$ 31,805,755

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution’s banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better and revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2012, the County's deposits were not exposed to custodial credit risk.

b. Investments

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County has adopted a policy to eliminate investment

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

custodial credit risk by permitting brokers that obtain investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2012, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy to diversify the investment portfolio so that the impact of potential losses from one type of security will be minimized.

The following table presents the County's deposit and investment balances at December 31, 2012, along with information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 3,354,329
IDS Mutual Fund	N/R	N/A	N/A	N/A	2,432
Checking					9,944,264
Savings					18,101,955
Petty cash and change funds					2,775
Certificates of deposit					400,000
Total Cash and Investments					<u>\$ 31,805,755</u>

N/A - Not Applicable
N/R - Not Rated

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2012, for the County's governmental activities and business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 149,376	\$ -
Special assessments	986,719	684,906
Accounts	27,089	-
Interest	3,091	-
Due from other governments	<u>3,871,610</u>	<u>-</u>
Total Governmental Activities	<u>\$ 5,037,885</u>	<u>\$ 684,906</u>

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Business-Type Activities		
Accounts	\$ 245,282	\$ -
Interest	25	-
Due from other governments	<u>16,862</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 262,169</u>	<u>\$ -</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 983,850	\$ -	\$ -	\$ 983,850
Right-of-way	608,551	156,495	-	765,046
Construction in progress	2,632,446	-	2,632,446	-
Total capital assets not depreciated	<u>\$ 4,224,847</u>	<u>\$ 156,495</u>	<u>\$ 2,632,446</u>	<u>\$ 1,748,896</u>
Capital assets depreciated				
Land improvements	\$ 504,797	\$ -	\$ -	\$ 504,797
Buildings	22,065,642	280,000	18,000	22,327,642
Machinery and equipment	6,230,593	893,237	682,155	6,441,675
Infrastructure	76,629,244	6,089,458	-	82,718,702
Total capital assets depreciated	<u>\$ 105,430,276</u>	<u>\$ 7,262,695</u>	<u>\$ 700,155</u>	<u>\$ 111,992,816</u>
Less: accumulated depreciation for				
Land improvements	\$ 342,505	\$ 19,791	\$ -	\$ 362,296
Buildings	4,270,809	424,166	18,000	4,676,975
Machinery and equipment	4,236,161	459,988	521,875	4,174,274
Infrastructure	22,367,583	1,629,644	-	23,997,227
Total accumulated depreciation	<u>\$ 31,217,058</u>	<u>\$ 2,533,589</u>	<u>\$ 539,875</u>	<u>\$ 33,210,772</u>
Total capital assets depreciated, net	<u>\$ 74,213,218</u>	<u>\$ 4,729,106</u>	<u>\$ 160,280</u>	<u>\$ 78,782,044</u>
Governmental Activities Capital Assets, Net	<u>\$ 78,438,065</u>	<u>\$ 4,885,601</u>	<u>\$ 2,792,726</u>	<u>\$ 80,530,940</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 390,433	\$ -	\$ -	\$ 390,433
Capital assets depreciated				
Buildings	\$ 187,823	\$ -	\$ -	\$ 187,823
Machinery and equipment	1,472,102	55,975	-	1,528,077
Landfill cells	7,431,890	-	-	7,431,890
Infrastructure	461,209	-	-	461,209
Total capital assets depreciated	\$ 9,553,024	\$ 55,975	\$ -	\$ 9,608,999
Less: accumulated depreciation for				
Buildings	\$ 60,684	\$ 6,260	\$ -	\$ 66,944
Machinery and equipment	1,084,965	76,079	-	1,161,044
Landfill cells	3,563,776	36,132	-	3,599,908
Infrastructure	40,996	30,747	-	71,743
Total accumulated depreciation	\$ 4,750,421	\$ 149,218	\$ -	\$ 4,899,639
Total capital assets depreciated, net	\$ 4,802,603	\$ (93,243)	\$ -	\$ 4,709,360
Business-Type Activities				
Capital Assets, Net	\$ 5,193,036	\$ (93,243)	\$ -	\$ 5,099,793

The increases in total capital assets depreciated and total accumulated depreciation each include a \$15,578 addition of capital assets and related accumulated depreciation of assets added from the governmental activities. Net depreciation reported is \$133,640 (\$149,218, less \$15,578).

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities		
General government	\$	463,288
Public safety		129,420
Highways and streets, including depreciation of infrastructure assets		1,918,082
Sanitation		1,975
Culture and recreation		18,550
Conservation		2,274
		2,533,589
Total Depreciation Expense - Governmental Activities	\$	2,533,589
Business-Type Activities		
Landfill	\$	133,640
		133,640

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2012, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund	\$ 8,518
General Fund	Road and Bridge Special Revenue Fund	139
Road and Bridge Special Revenue Fund	General Fund	4,964
Road and Bridge Special Revenue Fund	Landfill Enterprise Fund	54
		13,675
Total Due To/From Other Funds		\$ 13,675

The outstanding balances between funds result from the time lag between the dates the interfund goods and services were provided and reimbursable expenditures occurred, and when transactions are recorded in the accounting system and when the funds are repaid. All balances are expected to be liquidated in the subsequent year.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund	\$ 8,862

The advance is to provide working capital to a ditch system with low reserves and current operating costs in excess of its revenues. This balance will be paid from future ditch special assessments.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2012, consisted of the following:

Transfer to Debt Service Fund from Road and Bridge Fund	\$ 1,257,284	Provide funds to pay off road bonds
--	--------------	-------------------------------------

C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 199,365	\$ 12,430
Salaries	418,069	19,764
Contracts	197,633	-
Due to other governments	323,650	9,920
Total Payables	\$ 1,138,717	\$ 42,114

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
Special assessment bonds with government commitment					
2008B G.O. drainage bonds	2019	\$35,000 - \$85,000	3.15 - 4.25	\$ 715,000	\$ 380,000
Less: unamortized discounts					(3,423)
Special Assessment Bonds with Government Commitment, Net					<u>\$ 376,577</u>
General obligation bonds					
2008A G.O. jail bonds	2021	\$150,000 - \$840,000	4.00 - 5.00	\$ 8,545,000	\$ 6,580,000
Plus: unamortized premium					180,337
Less: unamortized discounts					(56,761)
General Obligation Bonds, Net					<u>\$ 6,703,576</u>

On August 17, 2004, Lyon County issued General Obligation Capital Improvement Bonds, Series 2004, in the amount of \$5,275,000, with interest rates of 3.0 percent to 3.7 percent. On January 12, 2012, Lyon County made early repayment of \$2,325,000 in principal to US Bank. The early repayment satisfied the principal amount in full.

Loans Payable

The County entered into loan agreements with the Minnesota Pollution Control Agency for funding Clean Water Partnership (CWP) projects. The loans are secured by special assessments placed on the individual parcels. Loan payments are reported in the General Fund.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt

Loans Payable (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
Cottonwood River Restoration CWP Project	2022	\$24,662	2.00	\$ 445,043	\$ 256,208
Yellow Medicine River Watershed CWP Project	2018	\$9,535	2.00	172,070	78,638
Redwood Watershed Phosphorus CWP Project	2021	\$25,038	2.00	451,831	339,995
Total Loans Payable				<u>\$ 1,068,944</u>	<u>\$ 674,841</u>

3. Debt Service Requirements

Debt service requirements at December 31, 2012, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 640,000	\$ 274,650	\$ 80,000	\$ 13,623
2014	660,000	248,650	80,000	10,582
2015	680,000	221,850	80,000	7,463
2016	700,000	194,250	35,000	5,162
2017	725,000	165,750	35,000	3,719
2018 - 2022	3,175,000	321,125	70,000	2,975
Total	<u>\$ 6,580,000</u>	<u>\$ 1,426,275</u>	<u>\$ 380,000</u>	<u>\$ 43,524</u>

Year Ending December 31	Loans Payable	
	Principal	Interest
2013	\$ 101,972	\$ 12,972
2014	100,459	10,957
2015	98,811	8,938
2016	97,093	6,989
2017	87,744	5,038
2018 - 2022	188,762	8,354
Total	<u>\$ 674,841</u>	<u>\$ 53,248</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 9,525,000	\$ -	\$ 2,945,000	\$ 6,580,000	\$ 640,000
Plus: unamortized premium	208,315	-	27,978	180,337	-
Less: unamortized discount	(63,374)	-	(6,613)	(56,761)	-
General obligation bonds, net	<u>\$ 9,669,941</u>	<u>\$ -</u>	<u>\$ 2,966,365</u>	<u>\$ 6,703,576</u>	<u>\$ 640,000</u>
Special assessment bonds with government commitment	\$ 465,000	\$ -	\$ 85,000	\$ 380,000	\$ 80,000
Less: unamortized discount	(3,943)	-	(520)	(3,423)	-
Special assessment bonds with government commitment, net	<u>\$ 461,057</u>	<u>\$ -</u>	<u>\$ 84,480</u>	<u>\$ 376,577</u>	<u>\$ 80,000</u>
Total bonds payable	<u>\$ 10,130,998</u>	<u>\$ -</u>	<u>\$ 3,050,845</u>	<u>\$ 7,080,153</u>	<u>\$ 720,000</u>
Loans payable	751,763	20,831	97,753	674,841	101,972
Compensated absences	575,112	874	22,178	553,808	46,939
Net OPEB liability	<u>1,288,113</u>	<u>106,649</u>	<u>51,344</u>	<u>1,343,418</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u>\$ 12,745,986</u>	<u>\$ 128,354</u>	<u>\$ 3,222,120</u>	<u>\$ 9,652,220</u>	<u>\$ 868,911</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care	\$ 1,209,607	\$ 36,132	\$ -	\$ 1,245,739	\$ -
Compensated absences	38,176	802	-	38,978	-
Net OPEB liability	<u>-</u>	<u>56,173</u>	<u>-</u>	<u>56,173</u>	<u>-</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 1,247,783</u>	<u>\$ 93,107</u>	<u>\$ -</u>	<u>\$ 1,340,890</u>	<u>\$ -</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,245,739 landfill closure and postclosure care liability at December 31, 2012, represents the cumulative amount reported to date based on the use of 28.5 percent of the estimated capacity of the landfill.

The County will recognize the remaining estimated cost of closure and postclosure care of \$3,122,125 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2012. Based on the current permitted capacity, the landfill has an estimated operating life of 78.3 years. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements and, at December 31, 2012, restricted assets of \$3,539,785 are held for these purposes. Lyon County expects that future inflation costs will be paid from investment earnings on these annual contributions.

However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

D. Fund Balance

Fund Balances	General	Road and Bridge	Human Services	Ditch	Debt Service	Total
Nonspendable						
Prepaid items	\$ 34,582	\$ 5,878	\$ -	\$ -	\$ -	\$ 40,460
Inventories	-	229,098	-	-	-	229,098
Restricted for						
DARE program	9,195	-	-	-	-	9,195
Missing heirs	2,483	-	-	-	-	2,483
Law library	92,035	-	-	-	-	92,035
Recorder's technology	210,273	-	-	-	-	210,273
Recorder's compliance	317,593	-	-	-	-	317,593
Debt service	-	-	-	-	988,650	988,650
Ditch	-	-	-	1,203,881	-	1,203,881
Enhanced 911	166,384	-	-	-	-	166,384
Sheriff's contingency	2,521	-	-	-	-	2,521
Sheriff's forfeited property	18,238	-	-	-	-	18,238
Attorney's forfeited property	40,920	-	-	-	-	40,920
Sheriff's canteen	55,994	-	-	-	-	55,994
Sheriff's gun permits	42,093	-	-	-	-	42,093
Probation supervision fees	84,454	-	-	-	-	84,454
Septic/sewer loans	338,243	-	-	-	-	338,243
Rock Lake pier project	2,106	-	-	-	-	2,106
Local water implementation	41,412	-	-	-	-	41,412
Fish and wildlife trust	84,678	-	-	-	-	84,678
Garvin Park horse staging area	13,000	-	-	-	-	13,000
Fairgrounds concession building	2,000	-	-	-	-	2,000
Highway allotments	-	4,666	-	-	-	4,666
Committed to						
County Feedlots and Septic Systems program	150,000	-	-	-	-	150,000
Twin Lakes Park	261,361	-	-	-	-	261,361
Garvin Park trust	213,953	-	-	-	-	213,953
Aggregate - gravel pit	209,901	-	-	-	-	209,901
Recycling and household hazardous waste assessments	142,166	-	-	-	-	142,166
Equipment purchase	-	104,546	-	-	-	104,546
Assigned to						
Criminal justice contingency	163,207	-	-	-	-	163,207
Insurance trust	185,073	-	-	-	-	185,073
Capital projects/building and improvement	512,841	-	-	-	-	512,841
Water/natural resource/flood control	149,906	-	-	-	-	149,906
Resource development	6,210	-	-	-	-	6,210
Elections	77,300	-	-	-	-	77,300
Truth in taxation	6,452	-	-	-	-	6,452
County cars	4,163	-	-	-	-	4,163
Blue Cross Blue Shield tobacco money	12,300	-	-	-	-	12,300
Designated sick leave/vacation pay	326,309	-	-	-	-	326,309
Technology	32,444	-	-	-	-	32,444
Group home account balance	60,784	-	-	-	-	60,784
Road and bridge	-	3,990,124	-	-	-	3,990,124
Unassigned	6,227,133	-	-	-	-	6,227,133
Total Fund Balances	\$ 10,299,707	\$ 4,334,312	\$ -	\$ 1,203,881	\$ 988,650	\$ 16,826,550

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

1. Plan Description

All full-time and certain part-time employees of Lyon County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan, and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a County correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the County correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

1. Plan Description (Continued)

Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan (Continued)

2. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

Lyon County is required to contribute the following percentages of annual covered payroll in 2012:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

Lyon County's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Employees Retirement Fund	\$ 274,451	\$ 278,864	\$ 270,583
Public Employees Police and Fire Fund	115,794	117,931	109,789
Public Employees Correctional Fund	77,744	75,270	65,789

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

One employee or Commissioner of Lyon County is covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,062	\$ 2,062
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description and Funding Policy

The County provides a single-employer defined benefit health care plan to eligible retirees. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Plan Description and Funding Policy (Continued)

The required contribution is based on projected pay-as-you-go financing requirements. Retirees contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. As of January 1, 2012, there were approximately 29 retirees receiving health benefits from the plan. The implicit rate subsidy amount was determined by an actuarial study to be \$40,227 for 2012.

In addition to the implicit rate subsidy, Lyon County pays the health and dental insurance for qualified retired employees and elected officials. Any employee or elected official hired on a full-time basis or elected to office prior to May 1, 1997, and retiring while in active service shall be entitled to four percent per year of service towards the County dental and health insurance premium. To be eligible, employees and elected officials must have worked for Lyon County for a minimum of 15 years and be at least 55 years old; or the employee's age and years of service, added together, total 75 or more. The County-paid portion shall not exceed the amount currently paid by the County on behalf of active employees (\$575 per month during 2012), and the benefit continues until death. Any employee hired after May 1, 1997, is not eligible for the benefit. The County finances the plan on a pay-as-you-go basis. The County had 6 elected officials and 31 employees eligible for this benefit in 2012. The cost for this program totaled \$162,983 (\$25,317 for elected officials and \$137,666 for employees) in 2012.

During February 2009, the Lyon County Board of Commissioners reduced the maximum payment of retirement benefits to \$330 per month, prorated at four percent per year of service, and limited the payment period to ten years (120 monthly payments) after retirement or upon death of the retiree, whichever occurs first.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$	310,929
Interest on net OPEB obligation		57,965
Adjustment to ARC		<u>(82,034)</u>
Annual OPEB cost (expense)	\$	286,860
Contributions made		<u>(175,382)</u>
Increase in net OPEB obligation	\$	111,478
Net OPEB Obligation - Beginning of Year		<u>1,288,113</u>
Net OPEB Obligation - End of Year	\$	<u><u>1,399,591</u></u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2008, 2009, 2010, 2011, and 2012, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2010	\$ 328,471	\$ 152,550	46.44%	\$ 1,095,686
December 31, 2011	322,837	130,410	40.39	1,288,113
December 31, 2012	286,860	175,382	61.14	1,399,591

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was \$3,330,764, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,330,764. The covered payroll (annual payroll of active employees covered by the plan) was \$4,858,831, and the ratio of the UAAL to the covered payroll was 68.6 percent.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Lyon County's implicit rate of return on the General Fund.

The annual health care cost trend is 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 8 years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2012, was 25 years.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters, for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County purchases commercial insurance for employee health and dental coverage as well as for other risks. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$460,000 per claim in 2012. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Southwest/West Central Service Cooperative is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the Service Cooperative and are based partially on the experience of the County and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items (Continued)

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

Lincoln-Pipestone Rural Water System

At December 31, 2011, (the latest information available) the Lincoln-Pipestone Rural Water System had \$36,595,000 of general obligation bonds outstanding through 2052. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

The debt is paid by the Lincoln-Pipestone Rural Water System from special assessments levied against property specially benefited by the applicable expansion, extension, or enlargement of the system and from the net revenues from time to time received in excess of the current costs of operating and maintaining the system. The bonds are general obligations of the issuing counties for which their full faith, credit, and unlimited taxing powers are pledged. The participating counties (Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine) have adopted Board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties make any debt service payments. In such a situation, each of the other counties will promptly reimburse the paying counties in proportion to the percentage of Lincoln-Pipestone Rural Water System customers located in such county, in accordance with Minn. Stat. § 116A.24, subd. 3. The outstanding bonds are reported as liabilities in the annual financial statements of the Lincoln-Pipestone Rural Water System and are not reported as liabilities in the financial statements of any of the nine participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities

Lincoln-Pipestone Rural Water System (Continued)

In 2012, Lincoln County issued a General Obligation Water System Refunding Bond for \$1,050,000 on behalf of the Lincoln-Pipestone Rural Water System to crossover advance refund the General Obligation Water System Refunding Bonds, Series 2003.

C. Joint Ventures

Southwest Health and Human Services

Southwest Health and Human Services (SWHHS) was formed under the authority of Minn. Stat. ch. 145A and Minn. Stat. § 471.59 by terminating the joint powers agreements for Lincoln, Lyon, & Murray Human Services (LLMHS) and Lincoln, Lyon, Murray, and Pipestone Public Health Services (LLMPPHS). Dissolution of LLMHS and LLMPPHS was effective December 31, 2010, although the agreement stated that both the LLMHS and LLMPPHS continued to exist after dissolution as long as necessary to conclude the affairs of the agencies. SWHHS began official operation on January 1, 2011, to perform health and human service functions. In 2011, funding was based on the percentages used in prior years for LLMHS and LLMPPHS. For 2012 and beyond, financing will be provided by the member counties based on consideration of: (1) population based on the most recent national census, (2) tax capacity; and (3) the most recent three-year average Social Service Expenditure and Grant Reconciliation Report (SEAGR), each factor to be weighted equally.

In 2011, Rock County petitioned to join SWHHS. Rock County's health and human service functions were assumed by SWHHS as of January 1, 2012. In 2012, Redwood County and Pipestone County petitioned to join SWHHS. Redwood County's health and human service functions and Pipestone County's human service function joined SWHHS as of January 1, 2013.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Health and Human Services (Continued)

SWHHS is governed by a Joint Health and Human Services Board, made up of one Commissioner (or alternate) from each county serving on the Community Health Board and one Commissioner (or alternate) from each county serving on the Human Services Board. The Human Services Board is made up of two County Commissioners from each of the participating counties, who are chosen by their respective County Boards, and one lay person from each participating county. The Community Health Board is made up of one County Commissioner and one alternate from each member county, unless such county shall have a population in excess of twice that of any other member county, in which case it shall have two Commissioners and two alternates. Financing is provided by state grants and appropriations from member counties. In 2012, Lyon County's contribution to Human Services was \$2,587,848, and its contribution to Health Services was \$224,454.

At December 31, 2011, (the latest information available) SWHHS reported a total fund balance of \$4,947,853. In addition, SWHHS reported total net position of \$4,247,697. SWHHS' long-term debt at December 31, 2011, was \$954,659 and includes a net OPEB obligation and compensated absences. The debt will be funded by intergovernmental revenue and revenue from computer services.

Complete financial statements of SWHHS can be obtained at 607 West Main, Marshall, Minnesota 56258.

Lincoln-Pipestone Rural Water System

Lyon County, along with Lac qui Parle, Lincoln, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine Counties, jointly established the Lincoln-Pipestone Rural Water System pursuant to Minn. Stat. ch. 116A. The Water System is responsible for storing, treating, and distributing water for domestic, commercial, and industrial use within the area it serves. The cost of providing these services is recovered through user charges.

The Lincoln-Pipestone Rural Water System is governed by the District Court. The Water System's Board is solely responsible for the budgeting and financing of the Water System.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2011, (the latest information available) were \$36,595,000.

The Lincoln-Pipestone Rural Water System's 2011 financial report shows total net position of \$48,544,818, including unrestricted net position of \$19,843,138. The increase in net position for the year ended December 31, 2011, was \$6,120,627.

Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 188, Lake Benton, Minnesota 56149-0188.

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. ch. 116A through a joint powers agreement pursuant to Minn. Stat. § 471.59 and under the jurisdiction of the Fifth Judicial District. The Counties of Brown, Cottonwood, Lyon, Martin, Murray, Redwood, and Watonwan have agreed to guarantee their share of debt arising within each respective county. The Red Rock Rural Water System provides water for participating rural water users and cities within the water district.

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt on the financial statements of the Red Rock Rural Water System. Outstanding governmental activities indebtedness at December 31, 2011, (the latest information available) amounted to \$13,555,000, and business-type indebtedness was \$203,588. The Water System's net position increased by \$563,153 in 2011.

Complete financial information can be obtained from the Red Rock Rural Water System, 305 West Whited Street, Jeffers, Minnesota 56145.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Southwest Minnesota Regional Radio Board

The Southwest Minnesota Regional Radio Board Joint Powers Board was established April 22, 2008, between Lyon County, the City of Marshall, the City of Worthington, and 12 other counties under the authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

Control is vested in a Joint Powers Board consisting of one County Commissioner and one City Council member for each party to the agreement. The members representing counties and cities shall be appointed by their respective governing bodies for the membership of that governing body. In addition, voting members of the Board include a member of the Southwest Minnesota Regional Advisory Committee, a member of the Southwest Minnesota Regional Radio System User Committee, and a member of the Southwest Minnesota Owners and Operators Committee.

Marshall-Lyon County Library

The Marshall-Lyon County Library is governed by a nine-member board, with six members appointed by the City of Marshall and three members appointed by Lyon County.

The County and the City of Marshall are responsible for the operating budget of the Library in a one-third to two-third split, respectively. Lyon County's contribution for 2012 was \$250,000.

D. Jointly-Governed Organizations

Lyon County, in conjunction with other local governments, has formed joint powers boards to provide a variety of services.

Area II River Basin Project

The Area II River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid \$20,341 of the County levy to the Project.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvement and management within the boundaries of the watershed of the Redwood and Cottonwood Rivers for the participating counties. During the year, the County paid \$15,840 of the County levy to the RCRCA.

Yellow Medicine River Watershed District

The County Board is responsible for appointing one member of the Board of Managers for the Yellow Medicine River Watershed District, but the County's responsibility does not extend beyond making the appointment.

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REQUIRED SUPPLEMENTARY INFORMATION

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 7,036,176	\$ 7,036,176	\$ 6,964,150	\$ (72,026)
Special assessments	309,021	309,021	402,652	93,631
Licenses and permits	19,500	19,500	35,743	16,243
Intergovernmental	1,339,815	1,339,815	4,803,166	3,463,351
Charges for services	810,000	810,000	1,024,704	214,704
Fines and forfeits	-	-	75	75
Gifts and contributions	-	-	2,225	2,225
Investment earnings	32,000	32,000	28,921	(3,079)
Miscellaneous	741,000	741,000	1,112,270	371,270
	<u>\$ 10,287,512</u>	<u>\$ 10,287,512</u>	<u>\$ 14,373,906</u>	<u>\$ 4,086,394</u>
Total Revenues				
Expenditures				
Current				
General government				
Commissioners	\$ 190,775	\$ 190,775	\$ 181,037	\$ 9,738
Courts	92,000	92,000	135,808	(43,808)
Law library	-	-	31,861	(31,861)
Administrator	280,089	280,089	257,996	22,093
Auditor/Treasurer	471,545	471,545	481,575	(10,030)
Information technology	88,500	88,500	86,784	1,716
Elections	27,500	27,500	85,359	(57,859)
Central services	476,910	476,910	456,087	20,823
Attorney	412,900	412,900	403,860	9,040
Recorder	333,370	333,370	306,081	27,289
Geographic information system	155,950	155,950	148,176	7,774
Assessor	204,115	204,115	190,386	13,729
Planning and zoning	227,150	227,150	164,331	62,819
Buildings and plant	674,595	674,595	481,792	192,803
Veterans service officer	121,825	121,825	94,945	26,880
	<u>\$ 3,757,224</u>	<u>\$ 3,757,224</u>	<u>\$ 3,506,078</u>	<u>\$ 251,146</u>
Total general government	\$ 3,757,224	\$ 3,757,224	\$ 3,506,078	\$ 251,146

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 2,113,303	\$ 2,113,303	\$ 2,109,611	\$ 3,692
Law enforcement center	1,797,597	1,797,597	1,652,495	145,102
Sheriff's contingent	-	-	5,951	(5,951)
Boat and water safety	-	-	1,439	(1,439)
Joint law enforcement center	224,240	224,240	179,343	44,897
Coroner	21,000	21,000	25,582	(4,582)
Sentence to serve	57,000	57,000	57,114	(114)
Criminal justice	-	-	11,512	(11,512)
Probation and parole	345,619	345,619	338,876	6,743
Emergency services	64,675	64,675	63,133	1,542
E-911 system	107,000	107,000	42,255	64,745
Regional Radio Board	-	-	2,881,597	(2,881,597)
ARMER radio system	-	-	417,975	(417,975)
Total public safety	\$ 4,730,434	\$ 4,730,434	\$ 7,786,883	\$ (3,056,449)
Sanitation				
Environmental	\$ 42,625	\$ 42,625	\$ 40,920	\$ 1,705
Hazardous waste	365,800	365,800	348,799	17,001
Recycling	179,721	179,721	192,018	(12,297)
Total sanitation	\$ 588,146	\$ 588,146	\$ 581,737	\$ 6,409
Culture and recreation				
Fairgrounds	\$ 77,236	\$ 77,236	\$ 45,450	\$ 31,786
Parks	193,400	193,400	167,905	25,495
Other	34,100	34,100	34,154	(54)
Total culture and recreation	\$ 304,736	\$ 304,736	\$ 247,509	\$ 57,227
Conservation of natural resources				
Extension	\$ 107,200	\$ 107,200	\$ 101,944	\$ 5,256
Soil and water conservation	-	-	6,401	(6,401)
Agricultural inspection	58,076	58,076	51,645	6,431
Water quality loan program	-	-	116,987	(116,987)
Water planning	72,060	72,060	18,629	53,431
Other	141,481	141,481	146,669	(5,188)
Total conservation of natural resources	\$ 378,817	\$ 378,817	\$ 442,275	\$ (63,458)

The notes to the required supplementary information are an integral part of this schedule.

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 58,155	\$ 58,155	\$ 57,668	\$ 487
Intergovernmental				
Health	\$ 220,000	\$ 220,000	\$ 224,454	\$ (4,454)
Culture and recreation	250,000	250,000	250,000	-
Total intergovernmental	\$ 470,000	\$ 470,000	\$ 474,454	\$ (4,454)
Debt service				
Principal	\$ -	\$ -	\$ 97,753	\$ (97,753)
Interest	-	-	13,699	(13,699)
Total debt service	\$ -	\$ -	\$ 111,452	\$ (111,452)
Total Expenditures	\$ 10,287,512	\$ 10,287,512	\$ 13,208,056	\$ (2,920,544)
Net Change in Fund Balance	\$ -	\$ -	\$ 1,165,850	\$ 1,165,850
Fund Balance - January 1	9,133,857	9,133,857	9,133,857	-
Fund Balance - December 31	\$ 9,133,857	\$ 9,133,857	\$ 10,299,707	\$ 1,165,850

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,909,201	\$ 1,909,201	\$ 1,885,286	\$ (23,915)
Intergovernmental	3,754,108	3,754,108	4,729,088	974,980
Charges for services	161,000	161,000	12,839	(148,161)
Miscellaneous	782,500	782,500	721,163	(61,337)
Total Revenues	\$ 6,606,809	\$ 6,606,809	\$ 7,348,376	\$ 741,567
Expenditures				
Current				
Highways and streets				
Public works	\$ 64,581	\$ 64,581	\$ 60,147	\$ 4,434
Administration	325,048	325,048	321,712	3,336
Construction	3,464,960	3,464,960	4,189,781	(724,821)
Maintenance	1,814,274	1,814,274	2,030,321	(216,047)
Equipment and maintenance shops	894,946	894,946	1,383,971	(489,025)
County road improvements and maintenance	43,000	43,000	-	43,000
Total highways and streets	\$ 6,606,809	\$ 6,606,809	\$ 7,985,932	\$ (1,379,123)
Intergovernmental				
Highways and streets	-	-	345,088	(345,088)
Total Expenditures	\$ 6,606,809	\$ 6,606,809	\$ 8,331,020	\$ (1,724,211)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ (982,644)	\$ (982,644)
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (1,257,284)	\$ (1,257,284)
Compensation for loss of capital assets	-	-	358,487	358,487
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (898,797)	\$ (898,797)
Net Change in Fund Balance	\$ -	\$ -	\$ (1,881,441)	\$ (1,881,441)
Fund Balance - January 1	6,331,938	6,331,938	6,331,938	-
Increase (decrease) in inventories	-	-	(116,185)	(116,185)
Fund Balance - December 31	\$ 6,331,938	\$ 6,331,938	\$ 4,334,312	\$ (1,997,626)

The notes to the required supplementary information are an integral part of this schedule.

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,359,714	\$ 2,359,714	\$ 2,328,449	\$ (31,265)
Intergovernmental	204,960	204,960	259,399	54,439
Total Revenues	\$ 2,564,674	\$ 2,564,674	\$ 2,587,848	\$ 23,174
Expenditures				
Intergovernmental				
Human services	2,564,674	2,564,674	2,587,848	(23,174)
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ -	\$ -	\$ -	\$ -

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 448,345	\$ 448,345	\$ 593,626	\$ 145,281
Intergovernmental	-	-	36,660	36,660
Investment earnings	-	-	1,017	1,017
Miscellaneous	-	-	12,870	12,870
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 448,345	\$ 448,345	\$ 644,173	\$ 195,828
Expenditures				
Current				
Conservation of natural resources				
Other	\$ 346,715	\$ 346,715	\$ 455,220	\$ (108,505)
Debt service				
Principal	85,000	85,000	85,000	-
Interest	16,630	16,630	17,572	(942)
Administrative (fiscal) fees	-	-	1,223	(1,223)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ 448,345	\$ 448,345	\$ 559,015	\$ (110,670)
Net Change in Fund Balance	\$ -	\$ -	\$ 85,158	\$ 85,158
Fund Balance - January 1	1,118,723	1,118,723	1,118,723	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 1,118,723	\$ 1,118,723	\$ 1,203,881	\$ 85,158
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2007	\$ -	\$ 9,480,606	\$ 9,480,606	0.0%	\$ 4,482,273	211.5%
January 1, 2009	-	4,103,917	4,103,917	0.0	4,942,611	83.0
January 1, 2012	-	3,330,764	3,330,764	0.0	4,858,831	68.6

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**LYON COUNTY
MARSHALL, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Ditch Special Revenue Fund, and the Debt Service Fund. The expenditure budget is approved at the fund level.

The budgets may be amended or modified at any time by the County Board. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund and the budgeted special revenue funds.

2. Budget Basis of Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles.

3. Budget Amendments

There were no amendments to the budget in the current year.

4. Excess of Expenditures Over Budget

	Expenditures	Budget	Excess
General Fund	\$ 13,208,056	\$ 10,287,512	\$ 2,920,544
Special Revenue Funds			
Road and Bridge	8,331,020	6,606,809	1,724,211
Human Services	2,587,848	2,564,674	23,174
Ditch	559,015	448,345	110,670

The expenditures in excess of budget were funded by unbudgeted revenues and fund balance.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Other Postemployment Benefits

Lyon County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2008. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets is zero. See Note 4.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

6. Significant Actuarial Assumption Changes

2012

The County obtained an actuarial evaluation as of January 1, 2012. Since the last actuarial valuation as of January 1, 2009, the following actuarial assumptions have changed:

- The assumed medical trend rates were reset to reflect updated health cost increase expectations.
- Mortality, withdrawal, and retirement rates were updated to the 2010 Public Employees Retirement Association rates (General, Police and Fire, and Correctional Employees Retirement Plan).

See Note 4.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 933,250	\$ 933,250	\$ 927,328	\$ (5,922)
Intergovernmental	-	-	16,450	16,450
Total Revenues	\$ 933,250	\$ 933,250	\$ 943,778	\$ 10,528
Expenditures				
Debt service				
Principal	\$ 620,000	\$ 620,000	\$ 2,945,000	\$ (2,325,000)
Interest	312,250	312,250	340,180	(27,930)
Administrative (fiscal) fees	1,000	1,000	3,227	(2,227)
Total Expenditures	\$ 933,250	\$ 933,250	\$ 3,288,407	\$ (2,355,157)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (2,344,629)	\$ (2,344,629)
Other Financing Sources (Uses)				
Transfers in	-	-	1,257,284	1,257,284
Net Change in Fund Balance	\$ -	\$ -	\$ (1,087,345)	\$ (1,087,345)
Fund Balance - January 1	2,075,995	2,075,995	2,075,995	-
Fund Balance - December 31	\$ 2,075,995	\$ 2,075,995	\$ 988,650	\$ (1,087,345)

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**LYON COUNTY
MARSHALL, MINNESOTA**

AGENCY FUNDS

Enterprise Development - to account for the receipts and disbursements of the Enterprise Development Board.

State Revenue - to account for the collection and disbursement of the state's share of fees, fines, and mortgage registry and state deed taxes.

Southwest Minnesota Regional Radio Board - to account for the receipts and disbursements of the Southwest Minnesota Regional Radio Board.

Taxes and Penalties - to account for the collection of taxes and penalties and their distribution to the various funds and governmental units.

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ENTERPRISE DEVELOPMENT</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 1,223</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,223</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 1,223</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,223</u>
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 91,005</u>	<u>\$ 745,548</u>	<u>\$ 796,838</u>	<u>\$ 39,715</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 91,005</u>	<u>\$ 745,548</u>	<u>\$ 796,838</u>	<u>\$ 39,715</u>
 <u>SOUTHWEST MINNESOTA REGIONAL RADIO BOARD</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 194,000</u>	<u>\$ 2,254,645</u>	<u>\$ 2,218,276</u>	<u>\$ 230,369</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 194,000</u>	<u>\$ 2,254,645</u>	<u>\$ 2,218,276</u>	<u>\$ 230,369</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 347,218</u>	<u>\$ 37,045,208</u>	<u>\$ 37,007,387</u>	<u>\$ 385,039</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 347,218</u>	<u>\$ 37,045,208</u>	<u>\$ 37,007,387</u>	<u>\$ 385,039</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 633,446</u>	<u>\$ 40,045,401</u>	<u>\$ 40,022,501</u>	<u>\$ 656,346</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 633,446</u>	<u>\$ 40,045,401</u>	<u>\$ 40,022,501</u>	<u>\$ 656,346</u>

OTHER SCHEDULES

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Shared Revenue

State

Highway users tax	\$ 3,353,053
County program aid	976,003
PERA rate reimbursement	40,012
Disparity reduction aid	26,855
Police aid	94,930
Enhanced 911	101,626
Market value credit	158,528

Total shared revenue **\$ 4,751,007**

Reimbursement for Services

Minnesota Department of Human Services **\$ 28,921**

Payments

Local

Payments in lieu of taxes	\$ 244,968
Local grants	17,434

Total payments **\$ 262,402**

Grants

State

Minnesota Department/Board of Natural Resources	\$ 47,746
Public Safety	1,947,328
Corrections	54,906
Water and Soil Resources	81,574
Health	6,948
Peace Officer Standards and Training Board	3,985
Pollution Control Agency	114,592

Total state **\$ 2,257,079**

Federal

Department of Commerce	\$ 139,462
Housing and Urban Development	15,075
Justice	1,590
Transportation	1,100,447
Homeland Security	1,288,780

Total federal **\$ 2,545,354**

Total state and federal grants **\$ 4,802,433**

Total Intergovernmental Revenue **\$ 9,844,763**

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety Public Safety Interoperable Communications Grant Program	11.555	<u>\$ 139,462</u>
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	<u>\$ 15,075</u>
U.S. Department of Justice		
Direct Bulletproof Vest Partnership Program	16.607	<u>\$ 1,590</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,089,802
Passed Through Minnesota Department of Public Safety, City of Worthington State and Community Highway Safety	20.600	9,645
Passed Through Minnesota Department of Public Safety Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	<u>1,000</u>
Total U.S. Department of Transportation		<u>\$ 1,100,447</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 95,155
Interoperable Emergency Communications	97.055	38,409
Homeland Security Grant Program	97.067	<u>1,238,510</u>
Total U.S. Department of Homeland Security		<u>\$ 1,372,074</u>
Total Federal Awards		<u><u>\$ 2,628,648</u></u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Lyon County. The County's reporting entity is defined in Note 1 to the basic financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lyon County under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Lyon County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Lyon County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 2,545,354
Homeland Security Grant Program grant monies expended in 2012 and received more than 60 days after year-end (CFDA #97.067)	<u>83,294</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 2,628,648</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Subrecipients

Of the expenditures presented in the schedule, Lyon County provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
11.555	Public Safety Interoperable Communications Grant Program	\$ 139,462
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	13,512
97.055	Interoperable Emergency Communications	37,816
97.067	Homeland Security Grant Program	<u>1,025,955</u>
	Total	<u>\$ 1,216,745</u>

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**LYON COUNTY
MARSHALL, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

Public Safety Interoperable Communications Grant Program	CFDA #11.555
Homeland Security Grant Program	CFDA #97.067

The threshold for distinguishing between Types A and B programs was \$300,000.

County qualified as a low-risk auditee? **No**

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

98-1 Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Lyon County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

Recommendation: We recommend that the County's elected officials and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are implemented by staff to the extent possible.

Client's Response:

County officials and management are aware that staff size does not provide for adequate segregation of certain accounting duties and responsibilities with the three departments you reported to us (Sheriff, Recorder, Landfill). Compensating controls mitigate the resulting risk. The County wishes to continue operations within those offices to serve the public and does not wish to inconvenience the public by having them go to another office to pay fees.

09-4 Jail Inmate Account Bank Reconciliation

Criteria: Reconciliations are critical control activities which involve the comparison of two sets of related records or balances from different sources. Effective reconciliations identify differences between the records or balances. When differences are found, one should then investigate why the differences exist (such as timing differences or errors) and resolve the differences in a timely manner. Documentation resolving the differences should be retained.

Condition: Jail personnel have been unable to reconcile the amount in the Jail checking account to the bank statement.

Context: During testing, we noted the bank reconciliation is left blank with no supporting documentation provided.

Cause: The Lyon County Jail has been unable to successfully identify the total cash balance as recorded on its inmate account tracking system, TEAM software through TurnKey Corrections.

Effect: Without bank reconciliations, the County has no assurance that the book balance is accurately stated. Bank reconciliations would provide evidence that all funds received and disbursed through the checking account have been recorded in TEAM.

Recommendation: We recommend County Jail personnel contact the software vendor to obtain the support and training necessary to accurately identify the TEAM cash balance. The Jail checking account should then be reconciled to the bank statement on a monthly basis.

Client's Response:

The County can and does identify the total cash balance as recorded within the inmate account tracking system. There have been no disputes or discrepancies as to any individual's balance since the system was installed during 2009. The Jail Administrator reconciled the bank account through August 2012. A staff member in the Auditor/Treasurer's office was granted access to the TEAM software for the purpose of reconciling monthly bank statements in September 2012. Due to personnel changes within the Auditor/Treasurer's office and the resulting alterations to the staff member's workload and responsibilities, reconciliations of this account were not a priority task. All monthly reconciliations between the book balance and bank balance were current as of July 2013.

PREVIOUSLY REPORTED ITEMS RESOLVED

Jail Canteen Account (09-3)

Profits from the canteen operation had not been remitted to the County since a new system was implemented in September 2009.

Resolution

Profits from the canteen operation were remitted to the County Auditor/Treasurer's Office starting in September 2012.

Audit Adjustments (11-1)

During the prior audit, we identified material adjustments that resulted in significant changes to the County's financial statements.

Resolution

The County has continued to implement procedures over financial reporting to detect misstatements in the financial statements. No material audit adjustments were proposed for the 2012 audit.

Network/Application Password Controls (11-2)

Lyon County had not reviewed the network controls or assessed risks from the change to a web-based application to ensure password controls were working as intended.

Resolution

Lyon County has reviewed the network controls and assessed the risks from the change to a web-based application. Password controls are working as intended.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

**Remittance of Funds to the Auditor/Treasurer from the Sheriff's Office
(09-7)**

Funds collected were not remitted to the County Auditor/Treasurer for the Pay to Stay program until an inmate had paid in full. At the end of 2011, the Sheriff's Office had \$24,508 in a bank account for the Pay to Stay program.

Resolution

Pay to Stay monies were remitted to the Auditor/Treasurer's Office in April 2012 upon closure of the Pay to Stay checking account. In June 2012, the County Board specified when accounts should be determined uncollectible. In addition, Pay to Stay monies are to be remitted to the Auditor/Treasurer's Office on a bi-weekly basis.

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STATE AUDITOR

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Board of County Commissioners
Lyon County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lyon County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 98-1 and 09-4, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lyon County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Lyon County does not have any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Lyon County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Lyon County's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 13, 2013

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Lyon County

Report on Compliance for Each Major Federal Program

We have audited Lyon County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. Lyon County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lyon County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lyon County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Lyon County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Lyon County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 13, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR